Inflation

Opponents of indexing claim that, if taxpayers are protected from the harmful effects of inflation induced bracket creep, the resolve to fight inflation will weaken. Indexing supporters counter that the reverse is true. Without indexing, the government has an incentive to encourage inflation since it receives the tax windfall from bracket creep. Indexing takes away this incentive by eliminating the windfalls.

CONCLUSION

Indexing provides, at long last, a tax break for the little guy. It introduces an extraordinary measure of fairness into the U.S. tax system. Indexing also preserves the integrity of the American democratic process. It means that if Congress desires higher taxes, each member must go on record and vote to increase taxes openly and deliberately. No longer can Congress depend on the subterfuge of bracket creep to raise taxes silently.

Indexing does not mandate a level of government spending nor does it freeze revenues at a specific level. It is simply a procedural reform to guarantee tax honesty by the nation's legislators. The integrity of American democratic institutions and elementary notions of fairness are at stake.

Yet some Republicans and Democrats want to eliminate indexing—ironically, in the name of fairness. But is it fairness when tax rates once reserved for the rich are imposed on middle- and even lower-income taxpayers? Is it fair that the federal government gains from inflation at the expense of those American working men and women least able to pay? Is it fair that Congress can raise taxes without recording a vote? Is it fair that Congressmen claim credit for cutting taxes when they are simply returning some of the revenue bonus from the inflation tax? Of course not. If Congress repeals indexing, it will overturn one of the fairest and most beneficial tax reforms in recent U.S. history. The little guy needs a tax break. Congress and President Reagan gave it to him in 1981. It would be unfair for Congress to take it back.

RECOGNITION TO CALIFORNIA REPUBLICAN ASSEMBLY

⊙ Mr. WILSON. Mr. President, I would like to enter into the RECORD a testimonial on a very distinguished occasion, the 50th anniversary in my home State of the California Republican Assembly.

CRA celebrates its golden anniversary this week on April 9, a half century of grassroot involvment at all levels and testimony to the fact that if concerned men and women get together they can impact their government and their lives.

CRA and its 50-year involvement is in the best tradition of American politics. These people have given their time and energies to their cause because they are devoted to and believe in America. They are more than just concerned about the direction of the country; they actually get involved and try to affect change.

Twenty of the 25 past CRA presidents will be gathered together this coming Saturday for this very special day to celebrate what will surely be only a half-way point in a century of service to the country. I will celerate this special occasion with them. As all of California celebrates with them.⊙

BERNARD E. HANUS RETIRES

⊙ Mr. LEVIN. Mr. President, I would like to take this opportunity to pay tribute to a longtime friend, Bernard E. Hanus, who is retiring as the director of administration of the Wayne County Board of Commissioners. Bernie is retiring after an impressive 31 years with Wayne County government in my home State of Michigan.

In 1952, Bernie left Ford Motor Co. to enter county service as a clerk in the Office of Board of Supervisors; 2 years later, he was appointed to the position of administrative assistant. Moving up the ladder of Wayne County governmental responsibility, he held the positions of administrative analyst, assistant committee clerk, and committee clerk before stepping in as director of administration 13 years ago. Bernie has also served as a member and chairman of the Detroit Wayne joint building authority since 1974.

A native of the Detroit area, Bernie is a graduate of the University of Detroit and has done postgraduate work at Wayne State University. He was also an associate of urban affairs at the National Institute of Public Affairs. He served in the U.S. Army.

In addition to Bernie's contributions to Wayne County government, he has been actively involved in both educational and professional organizations. He has served as member and president of Our Lady Queen of Peace Roman Catholic school board. He is a life member of AMVETS Post No. 33 and has previously served as post commander. Bernie has also found time to sit on the board of directors for the Wayne County Employee's Credit Union. Bernie's retirement will provide him with additional time to devote to his interests in travel, continuing adult education, reading, volunteer activities, and his family—his wife, Beverly, and their five children and two grandchildren.

Throughout his government career, Bernard E. Hanus has exemplified the characteristics of an effective public servant—diligent, concerned, innovative, and involved. I am pleased to pay this tribute to Bernard E. Hanus of Wayne County, Mich., and I congratulate him on a successful government career.⊙

RETIREMENT PROGRAMS FOR THE INTELLIGENCE COMMUNITY

⊙ Mr. DURENBERGER. Mr. President, when we debated the Social Security Amendments of 1983, we were well aware of the concerns expressed by Federal workers. Much of that concern should be allayed by the provision that:

Nothing in this Act shall reduce the accrued entitlement to the future benefits under the federal retirement system of current and retired Federal employees and their families.

Even with this provision, it is essential for each Member of this body to reassure Federal employees of our commitment to insuring their retirement income. The Governmental Affairs Subcommittee on Civil Services, Post Office, and General Services, under the able leadership of the assistant majority leader, will soon address the need to restructure Federal retirement systems affected by this act.

Mr. President, when the full Governmental Affairs Committee considers Federal retirement plans, the committee must be especially sensitive to the need to maintain the integrity of retirement systems for our intelligence personnel. Intelligence is truly the first line of defense for our country, and we cannot afford to let it deteriorate.

Our intelligence officers must always be the cream of the crop. They need skills in foreign languages and cultures; knowledge of political, economic, and military affairs; administrative ability; and often both mental and physical stamina. The Government cannot offer top salaries even to such highly skilled people. We rely largely on their sense of duty.

A major inducement to these people, Mr. President, is the ability to take early retirement in time to have a second career. Retirement at age 55 with 30 years service—or at age 50 with 20 years service, for most overseas employees of the CIA—is a crucial incentive to top-flight personnel who could easily make more money outside the Government.

Early retirement serves other purposes as well. It enables our intelligence agencies to bring in new blood. It lets them give promotions to younger personnel who have the drive and energy that the exhausting world of intelligence demands. Age brings wisdom, but our intelligence agencies also need hustle. They need early retirement systems—including the CIARDS system for CIA's overseas personnel—to keep performing the difficult and crucial tasks that America entrusts to them.

Mr. President, it is too early to say exactly what a restructured Federal retirement system will look like. But I can assure the fine men and women of our intelligence community that my service on the Select Committee on Intelligence has made me well aware of how much we depend upon them. I am determined that they, in turn, will be able to depend upon us.⊙

A BANKER'S VIEWPOINT

⊙ Mr. RIEGLE. Mr. President, Howard L. Gay is vice chairman of the Citizens Commercial & Savings Bank of Flint, Mich. Over the years he has done a considerable amount of thinking and writing about the American

dream of home ownership and the ability of millions of our young people to realize that dream.

Last February 25, 1983, he wrote an article in "Michigan Investor" entitled "Establishing a Fixed Rate and Tax-Exempt Status for Passbook Savings." It contains some of his latest thoughts on how to stimulate the housing industry and make home ownership affordable to all Americans.

Mr. President, I ask that this article be printed in full immediately following these remarks.

The article referred to follows:

A BANKER'S VIEWPOINT: ESTABLISHING A FIXED RATE AND TAX-EXEMPT STATUS FOR PASSBOOK SAVINGS

(By Howard L. Gay)

There is a serious question of whether the American dream of home ownership will materialize for millions of our young people due to the cost of deposits and the required short-term reinvestment of these funds.

The opportunity to earn money market interest on savings and checking accounts may be a windfall for depositors, but it's going to mean tough going for anyone looking for a loan, especially a long-term, fixed rate mortgage.

"Bankers must charge three percentage points more for mortgages than they pay on deposits," said economist Tom Powers of Goodkin Associates of Fort Lauderdale, Fla., a national real estate consulting firm. "That is to cover their processing, risk and profit. So if deposits earn 10%, mortgages must be 13%, or more.

The contradictory courses this nation is following cannot solve the problems of inflation, trade balances, recession, budget deficits, business failures and unemployment. The pattern is, when a solution is neared in one area, conditions worsen in others. This is particularly true in the phaseout of interest rate ceilings which have and will increase the cost of borrowing and which will require adjustable rates on loans.

Millions of our young people who dream of owning their own homes cannot afford to pay 13% "plus"—the "plus" being the unknown rate increases based on the future cost of deposits. The majority of our employed young citizens can afford a rate of 8½%, if the rate is permanent.

What we need is a stable, low-cost deposit base if we are to provide the funds enabling our young people to realize the American dream of home ownership. A stable deposit base at a low rate of interest can be established with an incentive savings plan. The incentive would be to offer a tax exempt status for passbook and statement savings accounts.

Enticing the average person to save more through offering tax-exempt interest on low interest savings accounts with no withdrawal restrictions would go a long way toward solving the problems of inflation, recession, budget deficits, trade balances, business failures and unemployment.

LIFT TO BUSINESS

Savings funds acquired at the present passbook rate would provide a tremendous lift to all business, particularly the construction industry—to the extent that overall tax revenues should increase substantially.

Instead of encouraging savings, the government appears bent on discouraging savings by its tax withholding on interest and dividends which may become effective July 1. This plan will add unnecessary costs to financial institutions and will decrease savings deposits. It's the wrong direction.

The All-Savers wasn't too much of a success and the thought that this type of one year taxless interest deposit would encourage financial institutions to generate long-term mortgages was simply illogical.

M. Brock Wier, in remarks on the Recapitalization American given to the Banker's Association for Foreign Trade, April 27, 1982, said: "One option would be partial exemptions of interest income from taxation. His statement gave me this thought:

Why not place a semi-permanent rate ceiling on passbook and statement savings, say until 1992, and make interest earned on these accounts tax exempt?

A tax-exempt status for passbook and statement savings would increase dependable, stable deposits and, would drive other money market rates downward. The small savers don't have the funds available to take advantage of tax-shelters such as municipal bonds and they would welcome a passbook savings tax-exempt account. It would even attract large investors who wish to invest short-term instead of long-term. No other changes in passbook and statement savings are proposed. Deposit and withdrawal privileges would remain the same. It would be a short-term account with a rate ceiling until 1992.

"The Depository Institutions Deregulation Act of 1980 provides for an orderly phaseout of interest rate ceilings on deposits over a six year period. This phaseout is intended to enable all depositors to receive a market rate of return on their savings as soon as it is economically feasible for institutions to pay such rates." Federal Reserve Regulatory Service 2-409 Transmittal 02/1 (3-81).

The key phrases are: orderly phaseout; six year periods; market rate of return; and economically feasible.

SIX MORE YEARS

The tax-exempt, semi-permanent ceilinged rate passbook savings fits three of the four key phrases mandated by Congress. The only thing that needs to be changed is to extend the period of the orderly phaseout from 1986 to 1992—an additional six years. Deregulation would still be intact, but the orderly phaseout would be more realistic than presently.

By 1992 most financial institutions will have restructured their assets into a profitable position and in the meantime all depositors, large and small, will receive a market rate of return.

A stable low-rate account will permit forward planning by industry, commerce and government. We must avoid the volatile, costly interest rate scene experienced in 1980, 1981, and the first half of 1982, if we are to combat inflation, increase employment and eliminate budget deficits.

President Reagan has promised a tax cut in 1983, but it is not economically feasible or sensible to put it into effect with a possible $195 billion deficit. I think that the American public would accept a tax-exempt savings account (which is a form of tax cutting) in lieu of the promised tax cut we can't afford.

A dependable, stable low-rate account will provide lower cost deposits and, in turn, will provide for lower cost borrowing for business expansion; a lower cost of borrowing will reduce the cost of all things manufactured making them more competitive in world markets; a lower cost of borrowing will decrease the cost of government by reducing the cost of debt servicing [1] and goods purchased; a lower cost of borrowing will benefit all borrowing consumers resulting in increased sales and manufacturing; a lower cost of borrowing will devalue the dollar against foreign currencies creating more sales abroad and, hopefully, giving us a positive trade balance for a change; a lower cost of borrowing should reduce defaults by both domestic and foreign borrowers; and, most important, it will provide funds for long-term, fixed-rate residential mortgages at interest rates about 33% below present rates, making homes affordable to our citizens once again.

A lower interest rate on mortgages will permit many millions of our younger families to qualify and it will also give extra borrowing power to those who can now qualify under existing rates. The majority of the borrowers can afford to use 25% of their income for housing payments and 33% for total debt servicing including the mortgage payment.

The triple effect from a revived housing industry on the other sectors of our economy will be enormous. We will enjoy prosperity once again. Business profits will increase and so will tax revenues. Perhaps most important, it will preserve our way of life by retaining the cornerstone of our society—the American dream of home ownership.

ORDER FOR THE RECOGNITION OF CERTAIN SENATORS ON TOMORROW

Mr. STEVENS. Mr. President, I ask unanimous consent that there be special orders entered for Wednesday, April 6, for Senators HATCH, BAUCUS, and MCCLURE, for not to exceed 15 minutes each.

The PRESIDING OFFICER. Without objection, it is so ordered.

VETO OF S. 366—MESSAGE FROM THE PRESIDENT—PM 35

The PRESIDING OFFICER laid before the Senate a message from the President of the United States, together with accompanying papers.

Mr. STEVENS. Mr. President, it is my understanding that the message we just received from the President is a veto message on S. 366, the Indian Claims Settlement Act.

I ask unanimous consent that that be temporarily laid aside, to be made the pending business upon the majority leader's request, after consultation with the minority leader and I further ask unanimous consent that the veto message be considered as having been read and that it be printed in the RECORD and spread in full upon the Journal.

The PRESIDING OFFICER. Without objection, it is so ordered.

[1] The 1984 budget will be around $840 billion and 72% of the budget will be consumed by Social Security benefits, defense and servicing the public debt. Interest expense in 1975 equaled 10.1% of federal outlays. In fiscal year 1982, it had grown to 16.2% and the estimation for 1983 was 17.5%. With deficits still expanding, coupled with higher rates on savings and checking accounts, we can be assured that the percentage of our budget to service the debt will continue to grow. If the percentage of 17.5% remains the same, we will be paying $147 billion to service our debt in fiscal year 1984. Just a slight improvement downward of 10% over current rates would have a great impact on our Federal budget and the budgets of all other political subdivisions.○